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Lockyer Lambastes Calif. Budget Accord

Calls Plan 'Banana Republic Financing'

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By [Rich Saskal](#)

SAN FRANCISCO - Hours after California lawmakers ended the longest budget deadlock in state history, Treasurer Bill Lockyer castigated their work, describing it as "banana republic financing."

"This budget won't balance the day it's signed," Lockyer said during his keynote address to The Bond Buyer California Public Finance Conference yesterday morning.

Lawmakers voted to adopt a budget in the wee hours of Tuesday morning, the 78th day of the fiscal year.

California budgets must pass with a two-thirds majority vote, meaning votes are needed from both parties even though Democrats have majorities in each house.

GOP lawmakers refused to raise taxes to close the \$15 billion structural deficit, and Democratic lawmakers resisted more budget cuts than those they accepted early on in the budget deadlock.

They finally brokered a deal that essentially borrows billions from next year's budget to balance this year's, through mechanisms such as increased payroll tax withholding.

After the budget passed the Senate, president pro tem Don Perata, D-Oakland, said he accepted the best deal he could get.

"We prevented the most egregious painful cuts to the innocent of our communities and we were able to keep education whole," he said in a statement. "We did not worsen the problem by doing more borrowing. But having said that, next year the tax increase will be needed once again. The Legislature won't have all these accounting tricks to plug the holes."

The budget agreement also reportedly calls for plans to bond against the state lottery, though not during the current fiscal year, and incorporates some budget reforms that Republican Gov. Arnold Schwarzenegger had asked for, including a rainy-day fund and some mid-year budget cutting authority.

Both the budget and lottery reforms would have to be approved by voters to take effect. And the Schwarzenegger administration was sending signals that the adopted budget reforms don't go far enough. At press time, it was not clear if he would follow through on a veto threat. That said, the same two-thirds vote it takes to adopt a budget could override a veto.

The two-thirds rule has become the biggest obstacle to sensible budgeting, Lockyer said yesterday.

"That's the fundamental problem that causes these delays every year. We do need to do some very radical reform," he said, adding that the best way to accomplish that would be through a constitutional convention.

"The problem is the very skimpy provision in the state constitution about the way you which cause the

state constitutional convention to occur is inadequately detailed," Lockyer said. "So there needs to be some serious work done about the timetable, the process, the scope, and as to how you select delegates, and so on. That may be too complicated, given the urgency with which the state needs to address its governance dysfunctions.

"The only alternative is the initiative process," he said. "I have \$10 million in my campaign account and I'm going to contribute a significant amount to work with others to try and get this dysfunctional system fixed."

After his "banana republic" comments, Lockyer reiterated his criticism of the ratings agency process that he has said significantly underrates the state's bonds.

Despite the state's "budget optics," the treasurer said, California's general obligation rating should be significantly higher than the current A-plus level, he said, because debt service has a continuing appropriation and a constitutional guarantee of repayment and therefore investors are not at risk, despite the state's dysfunctional budget system.

"What matters is default risk and failure to pay on time," he said

Lockyer also said he'll continue marketing state bonds to retail investors and expanding his efforts to direct business to local bond firms.

"Obviously we're having a shrinking capacity whether its credit liquidity and the number of investment banks we have to work with," he said.

"I'd like to figure out a way to discipline a pool of small investment banks that we can go to regularly without kind of renegotiating the deal every time ... but to do it in a more routine fashion and just go to them regularly for moving our issues aggressively," Lockyer said.

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